the economy of québec

ELEMENTS OF AN INDUSTRIAL DEVELOPMENT POLICY

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DEPARTMENT OF INDUSTRY AND COMMERCE

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DIRECTION GENERALE DE LA RECHERCHE ET DE LA PLANIFICATION

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INTRODUCTION

The year 1972 was marked by an acceleration of Québec's economic growth. All main indicators: G.N.P., capital expenditure, investment, retail sales, etc... showed substantial increases over 1971. The growth of Québec's economy compares favourably with that of most industrialized countries of the world. The growth rate of the gross national product, besides being the highest registered by Québec in the last five years, also ranks among the world's best performances.

In spite of these very good, not to say excellent, results, the development of Québec's economy in 1972 again reflected the weakness of its economic structure. As a matter of fact, the economic recovery is slower and less pronounced here than in Canada and particularly in Ontario. This development pattern had already been observed in the past as new expansion periods were taking place. The durable and equipment goods industries are particularly affected by an economic recovery and it is a known fact that these industries are rather poorly represented in Québec.

It may indeed look strange that the net creation of jobs is in no way in keeping with the growth of investment. While Québec is, of all Canadian provinces the one with the highest increase in capital expenditure, the growth of its employment rate is nevertheless rather low. This can be explained by the fact that the rise in investment in 1972 was mainly

accounted for by the purchase of machinery for industries of the conventional type. Under these conditions, the benefits derived by Québec on a short-term basis, are far from optimum since a large proportion of that machinery is imported. Consolidation and rationalization in conventional sectors may even be accompanied, in the short run, by a decline in employment. In the long run, however, these investments will prove beneficial and should have more positive effects already in 1973, since they contribute to raising Québec's production capacity and reinforcing the competitive position of its industries.

The action taken by the present Québec government in industrial development matters aims precisely at modifying the industrial structure. Sure enough, the structure does change by itself with years, but such development, besides being too slow, is not necessarily consistent with the actual needs of Québec. This development may nevertheless be influenced or accelerated by orienting all efforts and incentives towards this objective.

WEAKNESS OF THE INDUSTRIAL STRUCTURE

Several studies, a few of which were conducted by the Department of Industry and Commerce, showed the weaknesses of Québec's industrial structure. These can be summarized as follows:

- the industrial structure is old and ill-adapted to changing demand. The participation of Québec's industry in fast growing markets is not only too small, but it is even steadily decreasing. The situation is exactly opposite in industries with an inelastic demand;

- the part of conventional, labour-intensive industries is relatively too large, in relation to their competitiveness;

- the level of Québec industry's productivity is lower than that of the Canadian industry;

- industries which have both a high productivity and a fast growing market are poorly developed and badly integrated in the Québec industrial structure. There are insufficient interrelations between the modern sector and the rest of the economy.

In the light of the foregoing, it appears evident that priority must be given to the installation and expansion of modern-technology, high-productivity industries or to industries oriented towards interprovincial or international markets which offer prospects of significant growth. The conversion of our manufacturing structure implies the consolidation and modernization of existing industries and enterprises.

FINANCIAL ASSISTANCE

- *Selection of projects*

The government's assistance to private investment is no longer meant to all types of industries. On passing the Québec Industrial Development Assistance Act (creating the Québec Industrial Development Corporation) and the Act to Promote Industrial Development Through Fiscal Advantages, the government was really innovating. This was actually the first major effort towards making the assistance programs selective and aimed at a specific objective which is the transformation of Québec's industrial structure. To be eligible to assistance from the Québec Industrial Development Corporation, prospective investors must comply with several economic requirements: to manufacture goods for expanding markets; to export, after the third year of operation, at least 20% of their production value; to make use of a modern technology; to have productivity rates and pay salaries at least equal to the average in the whole Québec manufacturing sector; etc.

- *Creation of jobs*

The firms of the type that meets these requirements generally do not create many direct jobs because they are capital-intensive; they do not create many indirect jobs either because they have at present virtually no link with the rest of the economy. Assisting enterprises of

that type may therefore seem incompatible with Québec's need for new jobs. However, such is not the case in the long run as this selection is based on the prospects of a high future growth. To refrain from favouring the installation or expansion of such firms would only be to defer the solution of the problems set by the chronic lack of growth in the most important sectors of Québec's economy and to be confronted with aggravated problems later on.

- *Petrochemical Industry Case*

One of the best examples of the merits of our position in this matter is no doubt the recently announced project involving Hercules Inc., Gulf Canada and Union Carbide. This project will do much towards favouring the expansion of Québec's petrochemical industry whose future was seriously endangered by the SOAP project in Sarnia. The petrochemical industry has a great importance in Québec's economy because of its vitality and its backwards linkages on a number of activities. While the proposed investment will not create many direct jobs (per dollar invested), it will nevertheless bring about in a more or less protracted period the installation of related enterprises.

- *Industrial promotion*

It is not to be inferred from the above that the Québec governement will refuse other types of investment projects. The main

objective of industrial promotion is to attract foreign investments by clearly outlining the comparative advantages of an installation in Québec (market, labour, supply in raw materials, transportation, public utilities, etc.). It is evident, however, that the most significant advantages, for firms other than natural-resource based enterprises, have to do with the critera mentioned in the Québec Industrial Development Assistance Act: an expanding North-American market; products that are not manufactured in Québec or whose production is inadequate to meet market demand; high productivity, etc. On the other hand, it would not be too wise to do heavy promotion to attract foreign investment in sectors which are well represented in Québec as these are generally the conventional type industries which already hardly meet competition from low production cost countries, or those industries with a multitude of small and medium-sized enterprises. In these two cases, the government's action is aimed mainly at consolidating and modernizing the industries or firms concerned.

- *Financial aid to small and medium-sized enterprises*

The Industrial Development Assistance Act also grants special advantages to enterprises that regroup their production facilities through merging or any other means. The intention here is not to create combines, but simply to help small and medium-sized enterprises to become more competitive and increase their part of the market. Finally, by virtue of the above Act, the Québec Industrial Development Corporation is

authorized to carry on the work initiated by the Québec Industrial Credit Bureau, by granting financial aid to profit-earning small and medium-sized enterprises which are unable to obtain financial assistance elsewhere at reasonable rates and conditions. Financing is one of the major problems met by small and medium-sized enterprises and were it not of Q.I.D.C.'s assistance, several projects could not materialize.

- *Impact of financial assistance*

It is surely too early at this time to evaluate with some accuracy the effects of the government's measures on Québec's industrial development. Such measures bear fruit on a medium or long-term basis, and the Québec Industrial Development Corporation has yet been in operation for 18 months only. However, there are some indications that this body is playing a major part towards improving the industrial structure.

During its 18-month life span, Q.I.D.C. has granted financial assistance for a total amount of $31,124,292 to 151 firms which will invest $200 millions. About two thirds of the moneys thus tied up were assigned to 49 projects by enterprises whose production is destined to fast growth markets or which make use of a modern technology (paragraph a, section 2 of the Act). The Q.I.D.C. also participated in 13 merging or regrouping projects (paragraph b, section 2 of the Act), in addition to granting loans to profit-earning enterprises which were unable to obtain financial assistance elsewhere at reasonable rates and conditions

(paragraph c, section 2 of the Act).

Results take on still greater significance when seen from the points of view of the sectors of activity involved and the type of assistance granted. The enterprises which derived the greatest benefit from the above mentioned Acts (Bills 20 and 21) are those operating in sectors that are both modern and dynamic from a market viewpoint. For instance, over 73% of the value of investment projects which were eligible under the Act to Promote Industrial Development Through Fiscal Advantages are in the following sectors: primary metal industries, metal fabricating industries, transportation equipment, electrical products, non-metallic mineral products, and chemical products industries.

It can be derived from the above that the work effected by Q.I.D.C. in just a few months of activity and in spite of administrative problems inherent in any starting operation was quite important even though immediate results may appear rather small if compared to the task which remains to be accomplished.

OTHER MEASURES

While the financial assistance provided by Q.I.D.C. may be considered as the backbone of the government's industrial development program, it is far from being the only means taken to stimulate the growth of the industry and modify the manufacturing structure. The technical

services offered by the Department of Industry and Commerce, the research work of the Centre de recherche industrielle du Québec (C.R.I.Q.), programs designed to facilitate the growth of exports, etc., are as many measures that were enacted with the same objective in view.

- *The Centre de recherche industrielle*

The Industrial Research Centre is intended to aid particularly those firms which, because of their size or financial position cannot afford any R & D which are the prerequisite of technological and economic progress. It is responsible for carrying out research in applied sciences, developing new products and processes, and stimulating innovation by Québec firms. It plays an essential part in a modern country where industrial development and restructuring are increasingly dependent on the capacity for innovating. Results obtained to date, as shown partly at the last meeting of Expo-Profits held in November last, are quite encouraging.

- *Assistance Program for Exporters*

The importance for Québec firms to prospect foreign markets, particularly U.S., cannot be overstressed. In view of the small size of the domestic market, a large majority of our enterprises cannot grow enough to be able to meet competition from imports. Therefore, it can be said without exaggerating that, in several sectors of activity, Québec's enterprises are bound to export if they are to survive. Unfortunately, a great

many small and medium-sized enterprises do not have the financial resources or know-how to undertake such prospection work. While the objective of the Department of Industry and Commerce's program is to increase the volume and value of exports, its main concern, however, is to have Québec's firms with a good growth potential get aware of the possibilities that are offered to them by foreign markets. The Department of Industry and Commerce organizes exhibitions abroad, or assumes the expenses of Québec's participants in such exhibitions; helps bring to Québec purchasing missions; assumes - and this applies particularly to consultant engineering firms - part of the risks incurred for obtaining contracts abroad. Besides, the Department has greatly increases the number of its trade officers in foreign countries.

The setting up of the Planning, Programming, Budgeting System will make it possible to have a better knowledge of the impact and performances of the various programs. However, it would appear at this time that the money spent to promote exports yields greater benefit to the economy as a whole than that used in any other development program. For instance, the efforts displayed by the Department to make Montreal the center of fashion in North America had excellent results, with exports from the Québec's clothing industry having increased by 9% in the nine first months of 1972 compared to the same period in 1971. Or course, this high rate of increase connot be attributed to the sole action of the Department of Industry and Commerce. It is sure, however, that this action contributed to not only maintaining but to even increasing the production of clothing in Québec.

CONCLUSION

The stimulation of economic growth in terms of a more rapid modification of the industrial structure has taken several other forms such as: reinforcing the Industry Branch with a view to getting a more thorough knowledge of the development pattern of industrial sectors, and a permanent communication with businessmen; aid to the establishment of industrial commissions in urban areas; control and planning of industrial parks; redefining of the General Investment Corporation's role; etc. These various programs, the realization of which was entrusted to different services of the Department of Industry and Commerce or to organizations related thereto, have specific objectives or sub-objectives. Their application is well co-ordinated through the medium of a board which meets every week under the chairmanship of the Minister.

It is therefore possible now to refer to the elements of a well-adapted Québec industrial policy. This policy necessarily concerns several government departments and services whose actions have to be co-ordinated if the main objectives of this policy are to be attained. This necessity logically led to the recent creation of a Departmental Comittee of Economic Affairs.